



SEPHAKU
HOLDINGS LTD

Remuneration Report 2018

REMUNERATION REPORT

BACKGROUP STATEMENT

The group's remuneration management is market related. We conduct market surveys and benchmarking to ensure competitiveness. Competitive remuneration is critical in attracting and retaining high-performing individuals due to the shortage of technical skills in the building and construction materials manufacturing industry. Competitive remuneration motivates employees and improves their performance in line with the group's strategic objectives.

The board through remuneration and nominations committee ("REMCO") is responsible for making decisions regarding the remuneration of executive directors, FD and the CEO. The CEO and FD are subsequently responsible for determining the appropriate total guaranteed remuneration and incentives of the rest of the group employees. The CEO is on a permanent contract and there will be no unusual obligation for the group at retirement which is set at 65 years. The CEO and FD's employment contracts have a provision for a minimum payment equivalent to annual remuneration on termination of employment due to change of control. The share incentive scheme also provides for an early vesting of options in case of change of control. The CEO is a member of eight boards including SepHold, Métier and Sephaku Cement which require his active participation regularly. The succession plan for the CEO was finalised during the year and the REMCO is confident that the group is sufficiently prepared for all eventualities as it relates to the CEO's tenure.

The REMCO recommends and advises the board on remuneration practices and long-term employee incentives, and it submits policy amendments to the board for approval. To ensure market related remuneration, consultants are contracted from time to time to provide an independent opinion on prevailing remuneration trends and to ensure that the group remains competitive. PricewaterhouseCoopers prepared a benchmark report in FY 2017 to inform the executive management remuneration packages. The report was considered objective and independent by the committee and recommended for adoption by SepHold. The report's recommendations were implemented in the 2017 financial year but reviewed in the reporting period following feedback from shareholders and to align to King IV.

The amendments in the policy mainly related to the compilation of the short-term incentives (STI) scorecard and development of a long-term incentives (LTI) to replace the share option scheme that was concluded during the current financial year. In applying King IV, REMCO considered the magnitude of the group to ensure that the implementation of the recommended practices is not a mindless application process but transformative to enhance the group governance framework. The board is committed to continuous improvement in the remuneration framework and will seek further ways to improve the policy.

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At the AGM held on 21 September 2017, the resolutions on the remuneration policy and non-executive directors' remuneration were approved by 94,3% and 99,9% respectively. Executive management engaged shareholders who expressed concerns on the structure of the key performance indicators. These were mainly related to the compilation of the STI scorecard and development of a LTI to replace the share option scheme.

REMUNERATION POLICY

The group adopts a total cost to company approach in remunerating all its employees. This ensures that employees are appropriately rewarded and are aware of the terms and conditions under which they are employed.

The remuneration framework ensures that the group companies:

- align remuneration practices with the business strategy, objectives, values and long-term interests of the company;
- appropriately compensate employees for services provided;
- ensure equitable and fair remuneration to facilitate the deployment of people throughout the business;
- ensure variable remuneration is aligned to company performance, at both a divisional and individual level;
- implement a flexible and competitive remuneration structure that;
 - o is referenced to appropriate benchmarks;
 - o reflects market and industry practices; and
 - o is tailored to the specific circumstances of the group
- comply with all relevant legal requirements.




Positioning of the total guaranteed package is based on an employee's level of demonstrated competency, qualifications, experience and performance. The total guaranteed package of employees new to the position are normally at the low end of the salary range. As the employee demonstrates increased experience, learning and performance, the package is adjusted based on the objective outcome of performance reviews.

The following summarises the performance measurement criteria:

- **Entry point:** New to the job or building the skill
- **Needs improvement:** The skill needs enhancing to improve performance
- **Effective:** Meets expectations
- **Excellent:** Exceeds expectations
- **World-class:** Expert and fully competent

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The table below summarises the main components of the reward package for group employees. Sephaku Cement applies a different reward framework as a subsidiary of DCP.

	Objective and practice	Award size and performance period
 <p>Guaranteed pay</p>	<ul style="list-style-type: none"> Remunerate above the market and industry average for key positions Remunerate market-related salaries for all other positions Review total guaranteed pay annually on 1 March 	<ul style="list-style-type: none"> The level of skill and experience, scope of responsibility and the total remuneration package are taken into account when rewarding employees Appropriate market percentiles based on skills, experience and competitiveness
 <p>Short-term incentive</p>	<ul style="list-style-type: none"> To motivate employees and incentivise delivery of performance over the financial year The appropriateness of measures and weightings are reviewed annually to ensure ongoing support of the strategy The exco annual bonus is paid in cash in July each year for performance over the previous financial year 	<ul style="list-style-type: none"> Performance over the financial year is measured against targets set in the balanced scorecards Target bonus (30%, 50% and 70%) of the total guaranteed pay aligned with the level achieved as defined in the performance management policy
 <p>Long-term incentive</p>	<ul style="list-style-type: none"> To motivate and incentivise delivery over the long term Awards relating to total shareholder return and against a framework for determining vesting to ensure continued support of the company strategy 	<ul style="list-style-type: none"> Performance over three financial years is measured against targets for the performance period with vesting ranging between 0%, 50%, 100% and 200% of the total guaranteed pay. The award will consist of a share award bought in the open market.

SepHold executive management performance criteria

The board-approved performance indicators to measure executive management's performance are reviewed annually. The indicators are broadly categorised into financial (75%) and non-financial measures (25%).

Contrary to the remuneration policy which states that key employees should be remunerated at the upper percentile rate, the executive management has deemed it prudent to receive guaranteed annual packages aligned to the JSE mean for directors of listed companies one year in arrears, since FY 2014 because of the construction industry downturn. Furthermore, the executive directors have decided not to increase their basic remuneration in the 2019 financial year. This demonstrates the REMCO's consideration of responsible and fair remuneration.

Following consultations with shareholders, the STI and LTI score card was revised to the one indicated in the table below. The short-term assessment criteria will be applied to the FY 2019 performance to be paid in FY 2020 and the long-term criteria will be applied from the 2021 financial year.

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Short-term incentives scorecard

Performance indicator	Weighting (%)	Performance condition detail	Minimum (30%)	Target (50%)	Stretch (70%)
Financial measures					
Real* growth in headline earnings per share (HEPS)	30	HEPS growth over the previous year in excess of inflation	Real HEPS growth of more than 0%	Real HEPS growth of 4% per annum	Real HEPS growth of 8% per annum or more
Earnings before interest, taxation, depreciation and amortisation (EBITDA)	25	The achievement of SepHold's EBITDA against budget. The EBITDA should reflect the proportionately consolidated EBITDA of the underlying subsidiaries less corporate costs.	80% of budget achieved	100% of budget achieved	120% or more of budget achieved
Gearing/covenants	20	Reduction in the ratio of total debt to EBITDA and improvement in debt service coverage ratio.	2.5 and 1.3	2.25 and 1.4	2.0 and 1.5
Non-financial measures					
Safety, environment and transformation	15	The achievement of safety, environmental and transformation targets as determined by the Company, will be measured against a portfolio of evidence.			
Achievement of job specific personal goals	10	The achievement of job specific personal goals as determined by the Company will be measured against a portfolio of evidence.			

The revised LTI scheme replaces the option scheme that ended in FY 2018. To limit dilution of shareholders' interests through the option scheme, the new long-term incentives are awarded in cash after a three-year vesting period during which the executive's performance is assessed against the key performance indicators. The cash awarded is used to purchase shares in the market to align the executives to shareholder interest. The executives are mandated to hold the shares for a period of two years during which they may benefit from capital appreciation and any dividends paid.

Long-term incentives scorecard

Performance indicator	Weighting (%)	Performance condition detail	Minimum (30%)	Target (50%)	Stretch (70%)
Total shareholder return (TSR)	75	TSR is measured against a comparable set of 10 companies.	Sixth or seventh position	Fourth or fifth position	First to third position
Achievement of strategic goals	25	The achievement of Sephaku strategic goals as determined by the Company, will be measured against a portfolio of evidence.			

* As measured against CPI.

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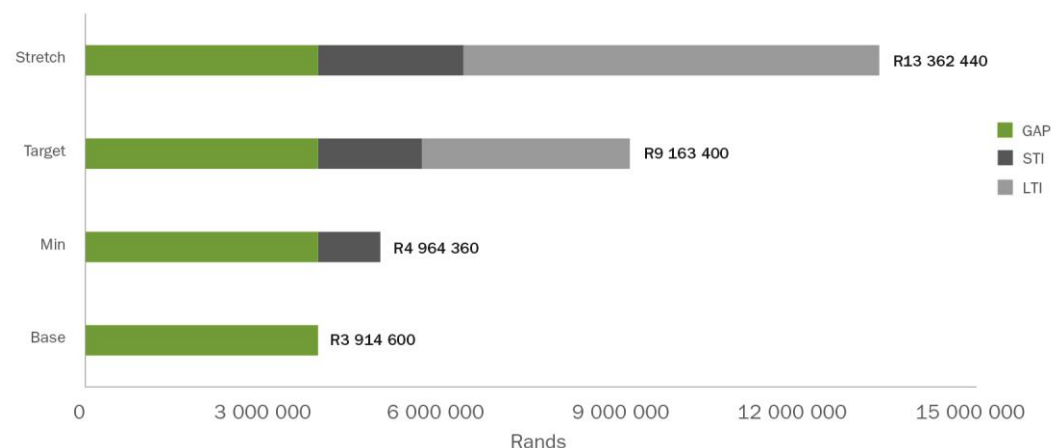
The table below summarises the assumption of the delivery of the minimum, target and stretch performance achievement on total remuneration of the CEO and FD in a single total figure based on the revised remuneration policy. The figures below apply to the CEO and FD because their remuneration is identical for each measure.

Summary of single total remuneration figure for minimum, target and stretch performance

2019	CEO and FD			
	Base R	STI R	LTI R	Total R
Base ¹	3 914 600			3 914 600
Min	3 914 600	1 049 760		4 964 360
Target	3 914 600	1 749 600	3 499 200	9 163 400
Stretch	3 914 600	2 449 440	6 998 400	13 362 440

¹ Base includes travel allowance where applicable.

Illustration of the single figure remuneration



Non-executive directors' remuneration

Elements and purpose

The group aims to attract and retain suitably skilled and experienced non-executive directors. An appropriate level of competitive remuneration is necessary to reward them for their time and expertise. The group non-executive directors are remunerated by way of an annual fee paid in recognition of membership of the board and its committees. The non-executive directors, including the group chairperson, do not receive any other employment benefits, performance-related remuneration, or any form of compensation for loss of office. The fee structure is reviewed and benchmarked annually to ensure that the proposed fees are aligned to market levels and supports the attraction and retention of high-quality individuals.

Service contracts

None of the directors have written service contracts with the company. Directors are employed by the board and rotate in terms of the memorandum of incorporation.

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IMPLEMENTATION REPORT

Below are the details of the implementation of the remuneration policy.

Executive directors' and prescribed officer's emoluments

Executive	Remuneration R	Prior year ¹ performance bonuses R	Travel allowances R	Pension fund R	IFRS 2 staff cost relating to share-based payment vesting expenses (non-cash) R	Total R
2018						
Dr L Mohuba	3 801 117	972 000	-	123 802	568 555	5 465 474
NR Crafford-Lazarus	3 649 620	972 000	151 497	123 802	870 533	5 767 452
KJ Capes*	1 080 000	-	-	-	-	1 080 000
	8 530 737	1 944 000	151 497	247 604	1 439 088	12 312 926
2017						
Dr L Mohuba	3 531 600	1 500 000	-	115 395	614 597	5 761 592
NR Crafford-Lazarus	3 375 043	1 500 000	156 557	115 395	746 865	5 893 860
KJ Capes	2 158 117	2 379 947	-	-	-	4 538 064
	9 064 760	5 379 947	156 557	230 790	1 361 462	16 193 516

* KJ Capes has been on a consultancy contract with the group as a business development expert to identify viable expansion opportunities since FY 2017. He is remunerated on a retainer based on agreed terms with the Company. KJ Capes, performance bonus is related to the transactions he successfully concludes during any particular year. To date, he has been working on the aggregates joint venture (Cato Ridge).

¹ The bonus paid in FY 2018 relates to the FY 2017 performance, and the bonus paid in FY 2017 was based on FY 2016 performance.

The CEO and FD STI awarded for the FY 2018 performance to be paid in FY 2019 were based on the measures in the table below. The bonus to be paid will therefore be R 760 000 representing the 20% weighting score. The decrease of the bonus paid from R1,5 million in FY 2017 and R 972 000 in FY 2018 demonstrates the REMCO's and executives' prudent approach to remuneration that is informed by the prevailing challenging trading environment. The constrained economic environment has resulted in relatively weak financial performance as demonstrated in the table below.

Performance condition	Weighting	Actual performance	Metric %	Weighted %
Financial measures				
HEPS	35%	Down on prior year	0%	0,00%
EBITDA	25%	66% of Budget	0%	0,00%
Total shareholder return	15%	Min threshold	30%	4,5%
Non-financial measures				
Safety, environment & transformation	15%	Better than expected	70%	10,5%
Achievement of personal goals	10%	Met expectations	50%	5,00%
OVERALL %				20,00%

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Other prescribed officer	Remuneration R	Performance bonus R	Travel allowance R	Pension fund R	Total R
2018					
WJ du Toit	1 648 350	242 769	25 200	156 081	2 072 400
2017					
WJ du Toit	1 576 146	385 942	25 200	144 178	2 131 466

WJ du Toit is a prescribed officer of SepHold and an executive director of Métier. All remuneration paid to him by the subsidiary company has therefore also been disclosed.

Non-executive	Fees for services as director R	Remuneration R	Performance bonus R	IFRS 2 Staff cost relating to share-based payments vesting expense (non-cash) R	Total R
2018					
B Williams	410 000	-	-	-	410 000
PM Makwana	310 000	-	-	-	310 000
MM Ngoasheng	310 000	-	-	-	310 000
MJ Janse van Rensburg	310 000	-	-	-	310 000
B Maluleke	155 000	-	-	-	155 000
RR Matjju	-	-	-	165 028	165 028
PF Fourie	-	3 914 256	805 837	-	4 720 093
	1 495 000	3 914 256	805 837	165 028	6 380 121

Non-executive	Fees for services as director R	Remuneration R	Performance bonus R	IFRS 2 Staff cost relating to share-based payments vesting expense (non-cash) R	Total R
2017					
B Williams	380 000	-	-	-	380 000
MG Mahlare	125 000	-	-	-	125 000
PM Makwana	250 000	-	-	-	250 000
MM Ngoasheng	250 000	-	-	-	250 000
MJ Janse van Rensburg	125 000	-	-	-	125 000
B Maluleke	62 500	-	-	-	62 500
RR Matjju	-	-	-	121 426	121 426
PF Fourie	-	3 223 349	1 001 784	-	4 225 133
	1 192 500	3 223 349	1 001 784	121 426	5 539 059

Refer to shareholders information in the directors' report in the annual financial statements for directors' interests in share options.

PF Fourie is a non-executive director of SepHold and an executive director of Sephaku Cement. All remuneration paid to him by the associate company, Sephaku Cement, has therefore also been disclosed above.